What are equity derivatives? Equity Derivatives Benefits and Types

What are Equity Derivatives?

Equity is the share of a company you own as an investor. This equity, in turn, gives you access to the company`s profits. You may also refer to the shares you hold as equity securities.

A derivative, on the other hand, is a security that results from a contract made by two or more parties to acquire or sell assets in the future. By projecting or forecasting the asset`s future worth, investors profit.

Another form of investment combines the two concepts: Equity Derivatives.

Your equity shares may serve as underlying assets for financial products known as derivatives, giving them value. Securities, commodities, and bonds are more examples of assets. Such financial assets` worth varies according to stock market price swings and corporate performance.

Types of Equity Derivatives?

- Options - With options, you can purchase or sell shares at a specific fixed price known as the strike price. You can get into an options contract to buy something (call) or sell something (put). On the other hand, you, the investor, are under no obligation to make the deal. The strike price, expiration date, and volatility of the stock all affect the option`s price, or "Premium." Investors use options contracts to hedge risk in the equities market.

- Futures - A Futures contract takes place between two parties. The underlying asset, which is stocks, is agreed to be purchased by the buyer and sold by the seller at a certain price on a future date. A futures contract requires the buyer to purchase the asset. Additionally, the seller is required to sell on the designated future date. In other words, the buyer must purchase the asset at the agreed-upon price and on the date stipulated in the contract.

- Warrants - A warrant holder has the option, but not the obligation, to purchase the underlying stock at a particular future date. Companies give out warrants as a reward to those who own their preferred stock and bonds.

- Swaps - Swaps are agreements that allow two parties to trade the returns of two separate equity companies. The exchange may involve equity returns, floating and fixed interest rates, various national currencies, etc.

Key benefits of Equity Derivatives?

- Managing Risk - The risk involved in asset values can be effectively transferred or transformed via equity derivatives. Risk takers in the stock market would bear the brunt of this risk, not risk-averse people.

- Protection Against Price Fluctuations - To lower the risk of an asset`s price falling, hedging entails buying related securities. This serves as a safety net against rising equity prices you wish to or intend to purchase and protects you from a price decline.

- Physical Settlement - Many investors prefer to hold onto their stock for a longer-term and higher profit. That does not imply that they do not also enjoy the benefit of short-term gains. This is often accomplished by physical settlement, allowing you to profit from shares that are idle.

- Arbitrage - Arbitrage refers to the simultaneous sale and purchase of an asset to take advantage of price differences in two different stock markets. In some markets, a share may be worth more than in others.

- Margin Trading - You simply need to pay a margin as an investor trading on a contract, not the total amount. By investing in margin trading, you may keep your outstanding at a high level, and the profits from accurate estimations indicate significant, rapid growth.

Equity derivatives services in Anand are JK Securities Private Limited, Angel Broking Pvt Ltd, Shayona Investment, and Motilal Oswal Securities Ltd. Since 1995, JK Securities has been delivering individualized consulting services to each customer and managing their wealth building.

The meaning of Equity Derivatives may seem confusing at first, but once you truly begin investing in this asset, you will witness the profitability of this investment option!